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RUEATRS/DEPT OF TREASURY WASHDC
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STATE FOR A/S SHANNON
STATE FOR WHA/MEX, WHA/EPSC, EB/IFD/OMA
STATE FOR EB/ESC MCMANUS AND IZZO
USDOC FOR 4320/ITA/MAC/WH/ONAFITA/ARUDMAN
USDOC FOR ITS/TD/ENERGY DIVISION
TREASURY FOR IA (Alice Faibishenko)
DOE FOR INTERNATIONAL AFFAIRS KDEUTSCH AND SLADISLAW
STATE PASS TO USTR (EISSENSTAT/MELLE)
STATE PASS TO FEDERAL RESERVE (CARLOS ARTETA)
NSC FOR DAN FISK

E.O. 12958: N/A

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SUBJECT: MEXICO Economic Notes, November 30-December 6, 2006

Summary

11. (U) President Felipe Calderon Hinojosa followed his short, but successful inauguration with a speech at the National Auditorium detailing key goals of his administration. Calderon's Secretaries of Finance, Economics and Labor have named their respective undersecretaries. The new Director General of Pemex said his goal is to promote reform, but not privatization. On a separate note, inflation expectations improve slightly. End Summary.

Calderon's three commitments

12. (U) After the December 1 swearing-in ceremony, Calderon addressed supporters and the civil society representatives at the National Auditorium. There, the new President committed to work hard to resolve existing political differences and said he will always be willing to dialogue, but that he won't wait for this dialogue to happen in order to start working. Calderon instructed his Security Cabinet to prepare a proposal to combat organized and other crime, to strengthen the police, and to create a unique national, criminal information database in no more than 90 days. Calderon acknowledged that fighting poverty and social inequality were among his main challenges. He promised to allocate more resources and use public resources more efficiently to alleviate poverty. Calderon said he would improve health services and education as well. He instructed his Social Cabinet to maintain and improve existing programs.

13. (U) Calderon instructed the Economic Cabinet to present in December a program to reallocate public expenditures and, during the first quarter of 2007, to prepare measures to make the productive sector more efficient. In this

context, his cabinet will also have to incorporate resources for the QFirst Employment ProgramQ (in which employers will be exempted from social security fees if they hire young people that are looking for their first job). In summary, as stated by Calderon, his three main priorities will be: security, extreme poverty reduction, and creation of jobs. Calderon also announced that he would reduce top officialsQ salaries by 10 percent and also reduce government administrative costs. Finally, he promised to send to Congress an electoral reform to regulate expenses and duration of campaigns. Official designations in Hacienda

¶4. (U) The top three aides to Finance Secretary Agustin Carstens will be Alejandro Werner as Under Secretary of Finance; Ernesto Cordero (key Calderon transition staffer) as Under Secretary of Expenditures; and Fernando Sanchez Ugarte (former consul in Oregon) as Under Secretary of Revenue. The Secretariat of Finance also announced the following designations: Eugenia Casar as treasurer; Jose Antonio Gonzalez Anaya as Chief of the Coordination Unit with State Governments; Alberto Real Benitez as SATQs General Administrator; and Luis Roberto Patron as Customs General Administrator (SAT). Jose Antonio Meade will be CarstenQs coordinator of advisors. Roberto del Cueto will be chairman of the National Banking and Securities Commission; and Agustin Acosta will be chief of the Financial Intelligence Unit.

Continuity in Economia with SojoQs team

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¶5. (U) Eduardo SojoQs team is expected to give continuity to EconomiaQs projects and more support to small and medium sized enterprises (SMEs). Beatriz Leycegui was designated Under Secretary of International Trade Negotiations; Heriberto Felix was designated Under Secretary of Small and Medium-Size Businesses; Carlos Arce (former head of the Regulatory Improvement Commission and the ConsumerQs Protection Office) was designated Under Secretary of Foreign Investment and International Trade Practices; and Rocio Ruiz was ratified in the Under Secretariat of Industry and Commerce. Some applauded RuizQ ratification because of her experience and knowledge, but some disagreed because of her part in orchestrating the reduction of several tariffs. Felix, former PAN candidate for Governor of Sinaloa in 2004 and former PAN Senator will have to implement new programs to support SMEs. Leycegui, who was one of NAFTAQs negotiators and Jaime Serra PucheQs partner in the private consulting group SAI, is seen as a technical person that will continue with the trade opening policy. Leycegui, who also collaborated in the Secretariat of Foreign Affairs, will also have the task of taking advantage of MexicoQs 12 foreign trade agreements with 42 countries. Alberto Ortega will be SojoQs Coordinator of Advisors.

Recycling at the Secretariat of Labor

¶6. (U) The new Secretary of Labor, Javier Lozano, designated the team that will accompany him during his tenure. In the Under Secretariat of Labor, Security and Social Provision, he designated Alvaro Castro (former Director of Religious Affairs in the Secretariat of the Interior); as Under Secretary of Employment and Labor Policy, Lozano named Javier Prieto de la Fuente, who is former director of Institutional Affairs of Cemex and led Concamin from 2001-2003, and is former advisor to Secretary Carlos Abascal). Patricia Espinosa Torres will be the Under Secretary for Human Development. Espinosa was a PAN Deputy and Chief of the WomenQs National Institute.

Reyes Heroles on Energy Reform

17. (U) Jesus Reyes Heroles, new Pemex DG, said that his goal is to have a business capable of guaranteeing an abundant supply at competitive prices. However, he said that this target does not mean that Pemex is going to be privatized, or sold, nor does it mean an expansion of the private sector's participation. Reyes Heroles said that in order to accomplish his goal he would look into what is needed to run Pemex better and more efficiently. Separately, the chairman of the Energy Committee of the Chamber of Deputies, David Maldonado (PAN), announced that lawmakers are working to reform the Energy Regulatory Commission (CRE). The reform will seek to grant powers currently held by Hacienda to the Commission so that the CRE establishes electricity and natural gas prices. The goal is to eliminate subsidies and provide support only to those who need it. Maldonado also stated that the committee's challenge is to reach consensus in order to pass Pemex corporate governance reforms, such as changes to its tax regime and diluting the strength of the union on Pemex's board of directors. Maldonado said that the Mexican oil industry requires both public and private investment.

Inflation expectations improve

18. (U) Inflation expectations improved slightly in late November, but the growth expectations for 2007 worsened to 3.5 percent according to the latest survey from the Mexican

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central bank. The market expects annual inflation to end 2006 at 3.9 percent compared to the previous forecast of 4.0 last month. Inflation expectations for 2007 continue at 3.5 percent.

BASSETT